

WASHINGTON TIMES
31 March 1986

Defense spending seen limit to Soviet goals for economy

By Roger Fontaine
THE WASHINGTON TIMES

Soviet leader Mikhail Gorbachev has made a good start at reviving the troubled Soviet economy, but two U.S. intelligence agencies say he may not be able to achieve a high growth if military spending continues unabated.

Cloudy long-term prospects for the Soviet economy were detailed in a joint report submitted by the CIA and the Defense Intelligence Agency March 19 in a classified meeting with the congressional Joint Economic Committee.

A declassified version was made public yesterday by Sen. William Proxmire, Wisconsin Democrat, a member of the panel.

Calling Mr. Gorbachev "the most assertive leader since Khrushchev," the report says he has consolidated his power and put into motion "an

ambitious strategy of modernizing the economy."

Mr. Gorbachev inherited the world's second-largest economy, but he took command at a time when the economy "appeared headed for its worst showing in any [Five Year Plan] since World War II," the intelligence report says.

Mr. Gorbachev's shakeup of management and imposition of stricter discipline on workers caused Soviet agriculture and industry to rebound in the last three quarters of 1985, the report says, despite the coldest winter in two decades.

Plans for the second half of this decade are even more ambitious. GNP is to grow at an annual rate of 3.5 percent from 1986 to 1990. For the rest of the century, the economy is targeted to increase at a rate of 5 percent yearly, the report says.

"Gorbachev's plans call for boosting economic growth through massive replacement of outdated plant and equipment and an emphasis on high-technology industries," according to the report.

Reaching this target would "require record growth in the machinery allocated for modernizing Soviet plant and equipment," the report says, while noting that the sector that makes industrial machinery also produces military hardware.

"In the near term, the Soviet defense establishment is well positioned to accommodate the possible shifts in machinery demand implied by the industrial modernization program" because military plants have been greatly improved in the last decade, the study says.

"Nevertheless," the report says, "over the longer term, the political risks for Gorbachev are likely to mount as the demand for new investment for defense plant and production equipment rises in the late 1980s and early 1990s, when the Soviets will have to begin retooling up for the next generation of weapons."

The report adds that, "Competition for resources could be intense for some basic materials and some intermediate goods, such as high-quality steel and microprocessors, and for skilled labor — resources traditionally supplied on a priority basis to military production."

"In the late 1980s," it says, "decisions will have to be made regarding the building of new capacity to produce the major new weapons of the 1990s."

"At that juncture, shortfalls in industrial modernization and technological advance would increase

pressures to postpone certain major new defense initiatives — a development that would be unpalatable to the military and some political leaders," the report says.

For the moment, however, military men strongly support Mr. Gorbachev's economic modernization program because military programs won't be hurt at all in the short term, and the possibility of a much stronger economic base by the end of the century also would benefit the Soviet military, it says.

As for Soviet military spending, the report finds that over the last

decade growth in military procurement has slowed to a 2 percent increase per year — half the previous decade's growth rate. But research and development grew at "a healthy 4 to 5 percent per year."

Although the Soviet defense budget is secret, the report estimates that military spending was between 15 and 17 percent of the GNP in the

early 1980s. Defense outlays in the United States absorb 6 percent of the U.S. economy.

Despite the drop in procurement increases, the report concludes that military gains by Moscow particularly "in the strategic area were especially large."

"Soviet strategic forces received roughly 3,500 ICBMs and SLBMs [submarine-launched ballistic missiles], three times as much as the United States procured," it says.

"Similar sweeping improvements occurred in Soviet conventional forces, where the U.S.S.R. added large numbers of more sophisticated fighters, bombers, and tanks," the report says.

For the long-term, the report expresses doubts that Mr. Gorbachev can pull off the twin achievements of continued high military spending and economic revitalization.

Although the Gorbachev plan holds out impressive goals, it fails to spell out precisely how they will be achieved. The size of the labor force and the amount of investment assigned are not large enough to meet the targets, the report says.

Instead, Mr. Gorbachev seems to be relying on sharp increases in productivity and large savings in energy and raw materials — doing more with less — to meet his ambitious goals.

But exhortations to work harder and save industrial materials and fuels is "an old theme," the report points out. It is unlikely to be achieved since consumer goods — the incentives that would spur worker efforts — are not likely to increase substantially. Despite the regime's rhetoric, there is no apparent planned increase in investment in the consumer goods sector for the next five years.

"My own view," Mr. Proxmire said in releasing the report, "is that a more or less permanent military burden of 12 to 14 percent is inconsistent with what we in the West consider acceptable economic performance."

"If I am correct, Gorbachev's efforts may be doomed unless there is a real cutback in defense," he said.